Providing Superior Value

PURE ENERGY SERVICES LTD.

MANAGEMENT'S DISCUSSION AND ANALYSIS
FORM 51-102F1

FOR THE YEAR ENDED DECEMBER 31, 2005

MARCH 6, 2006

MANAGEMENT'S DISCUSSION AND ANALYSIS

The following management's discussion and analysis ("MD&A") of the consolidated financial condition and results of operations of Pure Energy Services Ltd. (the "Corporation") is dated, and has been prepared taking into consideration information available to March 6, 2006 and should be read in conjunction with the consolidated audited financial statements of the Corporation as at and for the years ended December 31, 2005 and 2004. Additional information relating to the Corporation, including the Corporation's Annual Information Form, is available on SEDAR at www.sedar.com. Unless otherwise indicated, references in this MD&A to "$" or "Dollars" are to Canadian dollars.

Overview

The Corporation is an oilfield services company and currently conducts operations in the Western Canadian Sedimentary Basin ("**Canadian Operations**"), and in the Rocky Mountain region of the United States ("**US Operations**") through its wholly-owned subsidiaries, Pure Energy Services (USA), Inc., Ross Wireline Services (2005) Ltd. and Motorworks Drilling Solutions Inc. and its partnership, Pure Energy Services Partnership (the "Partnership"). References to the "Corporation" in this MD&A refers to the Corporation and its subsidiaries and the Partnership. The Corporation currently has two operating segments, the Completion Services Segment and the Drilling Services Segment, which carry on business through various operating divisions. As at December 31, 2005, the Completion Services Segment was comprised of the Canadian Production Testing division, the United States Production Testing division, the Logging and Perforating division, the Multiline division and the Pressure Transient Analysis division. The Logging and Perforating division, Multiline division and Pressure Transient Analysis division only operated in Canada during the 2005 fiscal year. As at December 31, 2005, the Drilling Services Segment was comprised of the Drilling division, which included the Corporation's drilling operations and equipment rental operations. All of the Drilling Services Segment's operations occurred in Canada during the 2005 fiscal year.

Readers are cautioned that this MD&A contains certain forward-looking information. Please see "Forward-Looking Information" for a discussion concerning the use of such information in this MD&A.

Selected Consolidated Financial Information

	Three Months ended December 31,		Year ended December 31,		
($ millions, except per share amounts)	**2005**	**2004**	**2005**	**2004**	**2003**
	(unaudited)	(unaudited)			
Revenue	**$ 35.3**	$ 14.8	**$ 100.5**	$ 47.1	$ 32.3
EBITDA (1)	**10.8**	2.8	**23.8**	8.7	7.0
Net income	**5.7**	0.5	**10.8**	2.5	2.8
Earnings per share					
Basic	**$ 0.47**	$ 0.08	**$ 0.99**	$ 0.36	$ 0.44
Diluted	**$ 0.45**	$ 0.08	**$ 0.97**	$ 0.36	$ 0.44

(1) EBITDA does not have a standardized meaning prescribed by GAAP. Please refer to the "Non-GAAP Disclosure" for the reconciliation to net income.

	As at December 31,		
($ millions)	**2005**	**2004**	**2003**
Total assets	**$ 123.1**	$ 64.6	$ 27.8
Current liabilities	**$ 13.9**	$ 46.2	$ 15.9
Long-term liabilities	**33.7**	2.6	1.3
Shareholders' equity	**75.5**	15.8	10.6
Total liabilities and shareholders' equity	**$ 123.1**	$ 64.6	$ 27.8

Fourth Quarter Highlights

The Corporation's revenue for the quarter ended December 31, 2005 increased 139% compared to the 2004 fourth quarter. EBITDA for the quarter increased 286% and net income increased more than tenfold compared to the quarter ended December 31, 2004. Similarly, diluted earnings per share of $0.45 increased substantially compared to the $0.08 recorded in the 2004 fourth quarter.

The 2005 fourth quarter established new corporate quarterly highs for revenue, EBITDA, net income and earnings per share in a fiscal quarter. These results reflect the increase in equipment capacity put into service during the year in the Canadian Operations of the Completion Services Segment, the significant expansion of the US Operations in the second half of 2005 (particularly in the 2005 fourth quarter) and the sizeable contribution of the Drilling Services Segment. Strong industry activity levels experienced during the quarter provided a favourable operating environment and, combined with the growth in the Corporation's equipment capacity, resulted in record quarterly financial results.

2005 Highlights

The Corporation's 2005 financial performance reflects strong industry demand experienced in both the Canadian and US Operations. 2005 revenue more than doubled to $100.5 million from 2004 revenue of $47.1 million. 2005 EBITDA, net income and earnings per share also experienced significant increases over prior year amounts. 2005 EBITDA of $23.8 million surpassed the prior year amount by approximately 170%. Net income for 2005 exceeded 2004 net income of $2.5 million by approximately 330% and diluted earnings per share increased 169% from $0.36 recorded in 2004 to $0.97 recorded in 2005.

Similar to the 2005 fourth quarter results, the Corporation's 2005 annual results established new corporate records for revenue, EBITDA, net income and earnings per share in a fiscal year. Strong industry activity levels combined with a larger fleet of equipment for the Completion Services Segment in both the Canadian Operations and the US Operations, and the contribution of the Drilling Services Segment produced the record annual financial results for the year.

Results of Operations

Three Months Ended December 31, 2005 Compared to the Three Months Ended December 31, 2004

Completion Services

Three months ended, ($ thousands)	**December 31, 2005**	**% of Revenue**	December 31, 2004	% of Revenue	Year-Over-Year Change $	Percentage
	(unaudited)		(unaudited)			
Revenue	**$ 28,806**	**100%**	$ 14,673	100%	$ 14,133	96%
Expenses						
Operating	**17,712**	**61.5%**	10,357	70.6%	7,355	71%
Selling, general and administrative	**1,814**	**6.3%**	1,064	7.3%	750	70%
Depreciation	**1,256**	**4.4%**	1,247	8.5%	9	1%
Other expense / (income)	**(525)**	**(1.8%)**	(5)	0.0%	(520)	
Income before income taxes	**8,549**	**29.7%**	2,010	13.7%	6,539	325%

Completion Services Revenue

Revenue for the Completion Services Segment increased 96% for the three month period ended December 31, 2005 compared to the three month period ended December 31, 2004. The increase is a result of continued strong industry activity coupled with significant increases in the equipment capacity, increased equipment utilization and pricing increases.

The equipment capacity of the Canadian Operations of the Completion Services Segment, measured in units, increased approximately 29%, with the average number of revenue producing units increasing from 55 units for the three month period ended December 31, 2004 to 71 units for the three month period ended December 31, 2005.

The Canadian Operations of the Completion Services Segment experienced a 27% increase in revenue per unit during the fourth quarter as a result of the implementation of pricing increases from 5% to 10% for each division in this Segment and higher utilization as a result of strong industry activity levels.

The US Operations' equipment capacity, measured in units, increased to an average of 13 units operating during the 2005 fourth quarter from an average of 1 unit operating for the three month period ended December 31, 2004. The equipment expansion combined with high equipment utilization levels during the fourth quarter resulted in revenue of $4.8 million, the highest quarterly revenue ever achieved by the US Operations.

Completion Services Income before Taxes

Income before income taxes for the Completion Services Segment increased approximately 325% for the three month period ended December 31, 2005 compared to the three month period ended December 31, 2004. The increase reflected the significant increase in revenue during the three month period ended December 31, 2005 compared to the three month period ended December 31, 2004 combined with relative cost efficiencies arising from operational leverage on the Corporation's fixed expenses, the significant incremental revenue contribution of the US Operations, improving operating results of the Multiline division and higher margins experienced in the Logging and Perforating division.

The US Operations commenced operations during the second half of 2004. As a result, it generated minimal revenue and recorded a small operating loss during the 2004 fourth quarter. The US Operations' equipment fleet has expanded significantly since the 2004 fourth quarter. The increased fleet size coupled with high utilization levels resulted in a significant increase in the US Operations income before income taxes in the 2005 fourth quarter as compared to the 2004 fourth quarter.

The Multiline division's improving margins are largely due to increased deep critical sour work being performed by the division (which tends to be more technical, higher revenue work), as well as the increased utilization of the equipment based in Grande Prairie, Alberta, and the positive contribution of the Ross Wireline equipment which was acquired in May 2005. The Multiline division has positioned itself to increase the amount of deep critical sour work performed and has seen the volume of work increase during the fourth quarter of 2005.

The higher margins experienced in the Logging and Perforating division are largely due to higher equipment utilization, particularly relating to equipment dedicated to the coal bed methane ("CBM") market, and pricing increases implemented during the quarter. The Logging and Perforating division is experiencing increased activity from the CBM market and expects CBM activity levels to continue to increase into 2006.

Drilling Services

Three months ended, ($ thousands)	December 31, 2005	% of Revenue	December 31, 2004	% of Revenue	Year-Over-Year Change $
	(unaudited)		(unaudited)		
Revenue	**$ 6,470**	**100%**	$ 123	100%	$ 6,347
Expenses					
Operating	**3,651**	**56.4%**	70	56.9%	3,581
Selling, general and administrative	**353**	**5.5%**	5	4.1%	348
Depreciation	**317**	**4.9%**	-	0.0%	317
Income before income taxes	**2,149**	**33.2%**	48	39.0%	2,101

Drilling Services Revenue

The Drilling Services Segment recorded $6.5 million in revenue during the fourth quarter of 2005, the highest quarterly revenue ever recorded by this Segment. The record quarterly revenue was primarily a result of an increase in the number of rigs operating combined with higher levels of rig utilization and the contribution from the Motorworks acquisition. The Drilling Services Segment operated an average of five drilling rigs during the three month period ended December 31, 2005 and experienced rig utilization of 73%. The increase in rig utilization was primarily due to higher industry activity levels experienced in Southern Alberta. The warm, dry weather experienced during the quarter allowed operators to catch up on their drilling programs in Southern Alberta resulting in significant industry activity during the 2005 fourth quarter. The Motorworks acquisition was effective November 1, 2005 contributing two months of revenue to the Drilling Services Segment 2005 fourth quarter revenue.

Drilling Services Income before Income Taxes

Operating expenses incurred during the three month period ended December 31, 2005 totalled $3.7 million and consisted primarily of wages, rig repairs and maintenance, and fuel expenses. Selling, general, and administrative ("SG&A") expenses totalled $0.4 million and consisted primarily of management and administrative wages and other administrative expenses. Depreciation expense totalled $0.3 million during the three month period ended December 31, 2005. Higher revenue levels experienced by the Drilling Services Segment during the quarter resulted in approximately 4% higher income before income taxes as a percentage of revenue as compared to the year ended December 31, 2005. Operating expenses and SG&A expenses for the quarter were lower as a percentage of revenue compared to percentages experienced for the year ended December 31, 2005.

Corporate

Three months ended, ($ thousands)	**December 31, 2005**	**% of Consolidated Revenue**	December 31, 2004	% of Consolidated Revenue	Year-Over-Year Change $	Year-Over-Year Change Percentage
	(unaudited)		(unaudited)			
Expenses						
Selling, general and administrative	**$1,493**	**4.2%**	$ 552	3.7%	$ 941	170%
Depreciation	**42**	**0.1%**	22	0.2%	20	91%
Interest	**419**	**1.2%**	324	2.2%	95	29%
Foreign exchange (gain) / loss	**12**	**0.0%**	1	0.0%	11	
Other expense / (income)	**-**	**0.0%**	(2)	0.0%	2	
Income before income taxes	**(1,966)**	**5.6%**	(897)	6.1%	(1,069)	119%

Corporate expenses for the three month period ended December 31, 2005 increased 119% compared to the three month period ended December 31, 2004, and relative to a 138% increase in consolidated revenue for the three month period ended December 31, 2005 compared to the three month period ended December 31, 2004. SG&A expenses increased $0.9 million or 170%, mainly as a result of higher salaries and related corporate and office expenses associated with the growth of the Corporation. The increase in salaries and related expenses was a result of the increase in the number of corporate employees combined with salary increases and an increase in bonus expenses incurred during the quarter. Corporate and office expenses have increased as a result of the growth of the Corporation. Stock based compensation expense of approximately $0.2 million was recorded during the quarter and also contributed to the increase.

Income Tax Expense

Income tax expense increased proportionately with the increase in profitability during the 2005 fourth quarter. The Corporation's effective tax rate during the 2005 fourth quarter was 31.9%, marginally lower than the Alberta corporate tax rate of 33.6% primarily as a result of a reduction relating to the prior year tax provision.

Year Ended December 31, 2005 Compared to the Year Ended December 31, 2004

Completion Services

Year ended, ($ thousands)	**December 31, 2005**	**% of Revenue**	December 31, 2004	% of Revenue	Year-Over-Year Change $	Percentage
Revenue	**$ 84,954**	**100%**	$ 46,984	100%	$ 37,970	81%
Expenses						
Operating	**56,254**	**66.2%**	32,902	70.0%	23,352	71%
Selling, general and administrative	**5,965**	**7.0%**	3,555	7.6%	2,410	68%
Depreciation	**4,814**	**5.7%**	3,487	7.4%	1,327	38%
Other expense / (income)	**(569)**	**(0.7%)**	120	0.3%	(689)	(574%)
Income before income taxes	**18,490**	**21.8%**	6,920	14.7%	11,570	167%

Completion Services Revenue

Revenue for the Completion Services Segment increased 81% for the year ended December 31, 2005 compared to the year ended December 31, 2004 primarily as a result of increased equipment capacity, high industry activity levels, higher equipment utilization, pricing increases, and the significant contribution of the US Operations.

Equipment capacity of the Canadian Operations of the Completion Services Segment, measured in units, increased approximately 40%, with the average number of revenue producing units increasing from 46 units for the year ended December 31, 2004 to 65 units for the year ended December 31, 2005.

The Canadian Operations of the Completion Services Segment experienced a 10% increase in revenue per unit as a result of higher equipment utilization and increased pricing. In particular, the Canadian Production Testing division experienced a 22% increase in revenue per unit.

The US Operations recorded revenue of $13.3 million during the year ended December 31, 2005. The US Operations commenced in the fourth quarter of 2004 and, following the initial developmental phase of operations, has achieved utilization rates as high as or higher than those experienced in the Canadian Operations of the Completion Services Segment.

Completion Services Income before Income Taxes

For the year ended December 31, 2005, income before income taxes increased approximately 167% compared to the year ended December 31, 2004. The increase reflected the significant increase in revenue during the year combined with relative cost efficiencies arising from operational leverage on our fixed expenses, the emergence of the US Operations and the significant improvement in the operating results of the Multiline division during the last half of the year.

The US Operations have grown from a start up operation in the second half of 2004 to 15 revenue generating units at the end of 2005. The US Operations have enjoyed solid customer demand which has translated into revenue growth, particularly during the second half of 2005. The growth in the size of the US Operations coupled with the revenue growth has resulted in the revenue base necessary to generate the expected margins from the US Operations.

Similar to the fourth quarter of 2005, the Canadian Operations Multiline division's improving margins are largely due to increased deep critical sour work being performed by the division, as well as the increased utilization of the equipment based in the Grande Prairie, Alberta and the positive contribution of the Ross Wireline equipment which was acquired in May 2005.

Drilling Services

Year ended, ($ thousands)	**December 31, 2005**	**% of Revenue**	December 31, 2004	% of Revenue	Year-Over-Year Change $
Revenue	**$ 15,539**	**100%**	$ 123	100%	$ 15,416
Expenses					
Operating	**9,341**	**60.1%**	70	56.9%	9,271
Selling, general and administrative	**946**	**6.1%**	5	4.1%	941
Depreciation	**739**	**4.8%**	-	0.0%	739
Income before income taxes	**4,513**	**29.0%**	48	39.0%	4,465

Drilling Services Revenue

Fiscal 2005 represents the first full year of operations for the Drilling Services Segment, which commenced with the acquisition of the assets comprising the contract drilling business of Quintera Drilling Ltd. on December 29, 2004. At the start of the year, the Drilling Services Segment operated three drilling rigs, which increased to six drilling rigs by the end of the fourth quarter of 2005, resulting in the Corporation operating an average of 4.2 drilling rigs during the year. This Segment experienced rig utilization rates of 48% for the year and recorded $15.5 million in revenue during the year. Higher than anticipated fourth quarter utilization and revenue partially offset lower than anticipated revenue during the first three quarters of 2005 which resulted from an early spring break up at the end of the first quarter of 2005, and wet weather encountered in southern Alberta during the second and third quarters of 2005.

Drilling Services Income before Income Taxes

Operating expenses incurred during the year ended December 31, 2005 totalled $9.3 million and consisted primarily of wages, rig repairs and maintenance and fuel expenses. SG&A expenses totalled $0.9 million and consisted primarily of management and administrative wages and other corporate expenses. Depreciation expense totalled $0.7 million during the year ended December 31, 2005. The Drilling Services Segment typically experiences higher margins compared to the services provided by the Completion Services Segment. Operating expenses, SG&A expenses and depreciation expense were all lower as a percentage of revenue on an annual basis compared to the Completion Services Segment.

Corporate

Year ended, ($ thousands)	**December 31, 2005**	**% of Consolidated Revenue**	December 31, 2004	% of Consolidated Revenue	Year-Over-Year Change $	Year-Over-Year Change Percentage
Expenses						
Selling, general and administrative	**$ 4,719**	**4.7%**	$ 1,732	3.7%	$ 2,987	172%
Depreciation	**133**	**0.1%**	80	0.2%	53	66%
Interest	**1,432**	**1.4%**	843	1.8%	589	70%
Foreign exchange (gain) / loss	**188**	**0.2%**	-	0.0%	188	
Other expense / (income)	**(112)**	**(0.1%)**	(4)	0.0%	(108)	
Income before income taxes	**(6,360)**	**6.3%**	(2,651)	5.6%	(3,709)	140%

Corporate expenses for the year ended December 31, 2005 increased 140% compared to the year ended December 31, 2004, and relative to a 113% increase in consolidated revenue for the year ended December 31, 2005 compared to the year ended December 31, 2004. SG&A expenses increased $3.0 million or 172%, mainly as a result of higher salaries and related corporate and office expenses associated with the growth of the Corporation. The increase in salaries and related expenses was a result of the increase in the number of corporate employees combined with salary increases and an increase in bonus expenses incurred during the year. Corporate and office expenses have

increased as a result of the growth of the Corporation. Stock based compensation expense of approximately $0.4 million recorded during the year ended December 31, 2005 also contributed to the increase.

Interest expense increased $0.6 million as a result of higher demand loan and operating loan balances experienced during the year, which was largely attributable to the financing of the acquisition of the assets comprising the contract drilling business of Quintera, other capital expenditures associated with equipment manufacturing and the acquisition of the assets comprising the slickline operations of Ross Wireline Services Ltd. A foreign exchange loss of $0.2 million for the year ended December 31, 2005 compares to nil recorded in 2004. The foreign exchange loss relates to the growth of the US Operations and the strengthening of the Canadian dollar relative to the United States dollar during the year.

Income Tax Expense

Income tax expense increased proportionately with the increase in profitability during 2005. The Corporation's 2005 effective tax rate was 35.1%, marginally higher than the Alberta corporate tax rate of 33.6% primarily as a result of the impact of non-deductible expenses recorded during the year. A current tax recovery of $0.4 million was recorded during the year ended December 31, 2005. The recovery primarily relates to the deferral of taxable income provided by the formation of the Partnership during 2005 combined with the additional write off of capital assets allowed for tax purposes. Future tax expense increased from $1.2 million recorded in 2004 to $6.3 million in 2005, predominantly as a result of the deferral of taxable income achieved through formation of the Partnership combined with the additional write off of capital assets allowed for tax purposes.

Liquidity and Capital Resources

Cash Flow from Operating Activities

The Corporation's cash flow from operating activities decreased $0.3 million and increased $1.8 million for the year and three months ended December 31, 2005, respectively. The significant increase in non-cash working capital experienced during 2005 was partially offset by the increase in funds provided by operations during the year. Conversely, the significant increase in funds provided by operations during the 2005 fourth quarter was partially offset by the increase in non-cash working capital experienced during the 2005 fourth quarter.

Increases in net income and non-cash expenses, specifically, depreciation and amortization expense and future income tax expense associated with the growth of the Corporation resulted in significantly higher funds provided by operations during the 2005 fourth quarter and the 2005 fiscal year. Future income tax expense, in particular, increased significantly largely as a result of the deferral of taxable income provided by the formation of the Partnership during 2005. Growth in operations and record revenue experienced during the fourth quarter and for the full 2005 fiscal year resulted in a significant build in non-cash working capital for both the three months and the year ended December 31, 2005.

Working Capital

($ thousands)	**As at December 31, 2005**	**As at December 31, 2004**
Current assets	$ 33,826	$ 16,515
Current liabilities	13,955	46,253
Working capital	19,871	(29,738)
Demand loans	-	30,973
Working capital before demand loans	$ 19,871	$ 1,235

The increase in current assets from December 31, 2004 to December 31, 2005 was largely a result of increases in accounts receivable due to the growth in operations and the record quarterly revenue achieved during the 2005 fourth quarter. As at December 31, 2005, the Corporation had an income taxes recoverable balance of $0.3 million. This balance has arisen largely as a result of the formation of the Partnership during the year.

The decrease in current liabilities from December 31, 2004 to December 31, 2005 was a result of the repayment of the demand operating loan and replacement of the demand loans with long-term debt incurred under the Corporation's credit facilities during the year. The demand operating loan was repaid using a portion of the net proceeds from the November 15, 2005 private placement of 1.0 million common shares of the Corporation. Accounts payable increased by $4.1 million largely as a result of the growth in the Corporation's operations.

Financing

The Corporation's primary sources of financing are bank debt and equity issuances. In December 2005, the Corporation finalized a new loan agreement which increased the Corporation's operating facility from $15.0 million to $20.0 million and also provided the Corporation with a $5.0 million non-revolving loan facility and a $50.0 million extendible revolving loan facility. The $5.0 million non-revolving loan facility and a portion of the extendible revolving loan facility were used to repay the Corporation's then existing $32.7 million demand loan facilities. The operating facility is repayable on demand, while the non-revolving loan facility is repayable monthly over 15 years. The extendible revolving loan facility is renewable annually at the option of the lender. If this facility is not extended, the amounts outstanding thereunder will be transferred to a four year term facility, repayable monthly.

On February 25, 2005, the Corporation completed a private placement of 3.9 million common shares for net proceeds of approximately $33 million. The net proceeds were used to reduce the outstanding balance under the Corporation's demand loans to purchase equipment for the US Operations, and for working capital purposes.

On November 10, 2005, the Corporation completed a private placement of 1.0 million common shares for net proceeds of approximately $11.3 million. A portion of the net proceeds were used to make initial deposits of approximately $6.0 million on November 14, 2005, and approximately $0.4 million on December 14, 2005, for the manufacture of two fracturing spreads which management expects will be available for service in the Rocky Mountain region in the second half of 2006.

On February 6, 2006, the Corporation completed an initial public offering of 3.125 million common shares for net proceeds of approximately $46 million. A portion of the net proceeds were used to repay the outstanding balance under the Corporation's extendible revolving loan facility with the balance remaining as cash. The remaining cash, cash flow from operations generated in 2006 and a portion of the unused borrowing capacity will be used to fund the Corporation's 2006 capital expenditure program.

As at March 6, 2006, the Corporation had 15,814,266 common shares and 1,296,625 stock options outstanding.

The Corporation, through the conduct of its operations, has undertaken certain contractual obligations. As at December 31, 2005, the Corporation's contractual obligations were as follows:

	Payments Due by Period				
Contractual Obligations	Total	Less than 1 Year	1 - 3 Years	4 - 5 Years	After 5 Years
Long-term debt obligations [1]	$ 26,297,451	$ 688,294	$ 9,185,652	$ 9,185,652	$ 7,237,853
Purchase obligations	22,739,064	22,739,064	-	-	-
Operating leases	6,885,000	2,184,000	2,782,000	939,000	980,000
Total Contractual Obligations	$ 55,921,515	$ 25,611,358	$ 11,967,652	$10,124,652	$ 8,217,853

(1) Long-term debt obligations represent balances outstanding under the extendible revolving loan facility and the non-revolving loan facility and the obligations in the table above assumes the revolving facility is not renewed in 2006.

Subsequent to December 31, 2005, the Corporation has committed to spend an additional $2.6 million relating to the construction of property, plant and equipment.

Cash Requirements

The Corporation has historically financed its capital expenditures with funds from operations, equity issues and debt. As at December 31, 2005, the Corporation had a number of ongoing capital projects and estimates that $31.9 million of additional capital expenditures will be required to complete these projects. Subsequent to December 31, 2005, the Board of Directors has approved an additional $10.1 million in capital expenditures, increasing the 2006 capital budget from $60 million to $70.1 million.

Off-Balance Sheet Arrangements

Under the terms of the Corporation's financial assistance program, the Corporation guaranteed loans obtained by certain employees for the purpose of purchasing common shares of the Corporation. The purpose of the financial assistance program was to encourage employees to purchase shares in the Corporation. The Corporation has terminated the financial assistance program and no longer provides any financial assistance for the acquisition of common shares.

As at December 31, 2005, the aggregate amount of the loans guaranteed by the Corporation was approximately $0.3 million. An officer of the Corporation holds the common shares purchased by each employee pursuant to the financial assistance program in trust until the loan is fully repaid by the employee. If the Corporation is required to make any payments under a guarantee given in respect of any employee's loan, the common shares purchased by that employee pursuant to the financial assistance program will be repurchased by the Corporation for no consideration and returned to treasury.

Related Party Transactions

In 2004, a loan in the amount of $130,000 was advanced to an officer and director of the Corporation to facilitate the purchase of shares of the Corporation. The loan was subsequently repaid in June 2005.

The Corporation incurs and pays legal fees to a director of the Corporation. The transactions are in the normal course of operations and are measured at rates common to such services, which are established and agreed to by the related parties. During the year ended December 31, 2005, the Corporation paid legal fees of $175,000 to this director.

The Corporation has entered into a seven year operating lease with Fastuc Holdings Ltd. ("**Fastuc**") for shop space located in Calgary, Alberta. Fastuc is controlled by an officer of the Corporation. Monthly lease payments of $11,000 are paid to Fastuc. This lease was negotiated prior to the officer becoming a related party to the Corporation. The monthly lease payment and commercial terms of the agreement are considered to be consistent with payments and terms expected for similar shop space in Calgary.

Critical Accounting Estimates

The Corporation prepares its consolidated financial statements in accordance with Canadian generally accepted accounting principles ("GAAP"). In preparing its financial statements, management is required to make various estimates and judgments in determining the reported amounts of assets and liabilities, revenues and expenses, as well as the disclosure of commitments and contingencies. Management bases its estimates and judgments on its own experience and various other assumptions believed to be reasonable at the time and under the circumstances in existence when the financial statements were prepared. Anticipating future events cannot be done with certainty; therefore, these estimates may change as new events occur, more experience is acquired or the Corporation's operating environment changes. The accounting estimates believed by management to require the most difficult, subjective or complex judgments and which are material to the Corporation's financial reporting results are set out below.

Allowance for Doubtful Accounts Receivable

The Corporation periodically evaluates its accounts receivable on an individual and overall customer basis. This process consists of a review of historical collection experience, current aging status of the customer accounts and other factors. Based on its review of these factors, it establishes or adjusts allowances for specific customers. This process involves a high degree of judgment and estimation and frequently involves significant dollar amounts. Accordingly, the Corporation's results of operations can be affected by adjustments to the allowance due to actual write-offs that differ from estimated amounts.

Impairment of Long-Lived Assets

Long-lived assets are tested for impairment annually, or more frequently as circumstances require. An impairment loss is recognized when the carrying amount of a long-lived asset exceeds the sum of the undiscounted cash flows expected to result from its use and eventual disposition. Estimates of undiscounted future net cash flows are calculated using estimated future revenues, operating expenses and other costs. These estimates are subject to risk and uncertainties, and it is possible that changes in estimates could occur which may effect the expected recoverability of the Corporation's long-lived assets.

To test for and measure impairment, long-lived assets are grouped at the lowest level for which identifiable cash flows are largely independent. The lowest asset groupings for which identifiable cash flows are largely independent are the Production Testing divisions, the Logging and Perforating divisions, the Multiline Services division and the Pressure Transient Analysis division or reporting units within the Completion Services Segment and the Drilling Services Segment.

Based on management's expectations for continued strong demand for the Corporation's services, the assumptions utilized to determine the future recoverability of long-lived assets resulted in no indication as at December 31, 2005 that the carrying value of the long-lived assets would not be recoverable in the future.

Goodwill Impairment

Goodwill represents the excess of purchase price for a company acquired over the fair market value of the acquired company's net assets. Goodwill is allocated as of the date of the business combination to the Corporation's reporting units that are expected to benefit from the synergies of the business combination. Goodwill is tested for impairment at least annually.

The impairment test is carried out in two steps. In the first step, the carrying amount of the reporting unit is compared with its fair value. When the fair value of a reporting unit exceeds its carrying amount, goodwill of the reporting unit is considered not to be impaired and performance of the second step of the impairment test is unnecessary. The second step compares the implied fair value of the reporting unit's goodwill with its carrying amount to measure the amount of the impairment loss, if any.

Assumptions to be utilized to determine the fair market value of each reporting unit will be estimated future revenues, operating expenses and other costs. These estimates will be subject to risk and uncertainties, and it is possible that changes in estimates could occur which may effect the impairment of goodwill.

Goodwill was first recorded by the Corporation during 2005. Management has had no indication that the value of the goodwill recorded on acquisition has been impaired.

Based on management's expectations for continued strong demand for the Corporation's services, the assumptions utilized to test for goodwill impairment resulted in no indication as at December 31, 2005 that the carrying value of the goodwill was impaired.

Depreciation and Amortization of Property, Plant and Equipment and Intangible Assets

Depreciation and amortization is calculated using either the straight-line or declining balance method over the estimated useful life of the asset. Management bases the estimate of the useful life and salvage value of equipment on expected utilization, technological change and effectiveness of maintenance programs. Although management believes the estimated useful lives and salvage values of the Corporation's equipment are reasonable, they can not be certain that depreciation and amortization expense measures with precision the true reduction in value of assets over time.

Income Taxes

The Corporation follows the liability method of accounting for income taxes. Under this method, the Corporation records future income taxes for the effect of any difference between the accounting and income tax basis of an asset or liability, using the substantively enacted tax rates. Valuation allowances are established to reduce future tax assets when it is more likely than not that some portion or all of the future tax asset will not be realized. Estimates of future taxable income and the continuation of ongoing prudent tax planning arrangements have been considered in assessing the utilization of available tax losses. Changes in circumstances and assumptions may require changes to the valuation allowances associated with the Corporation's future tax assets.

Accounting Policies

The Corporation prepares its financial statements in accordance with GAAP. Accounting policies have been applied consistently during all periods included in the financial statements.

Disclosure Controls

An evaluation was performed under the supervision and with participation of the Corporation's senior management, including the President and Chief Executive Officer and Chief Financial Officer, of the effectiveness of the Corporation's disclosure controls and procedures as of December 31, 2005. Based on that evaluation, the Corporation's management concluded that the Corporation's disclosure controls and procedures were effective as of December 31, 2005.

Financial Instruments

Fair Values of Financial Assets and Liabilities

The fair values of cash, accounts receivable, marketable securities, income taxes recoverable, and accounts payable and accrued liabilities and income taxes payable included in the Corporation's consolidated balance sheets, approximate their carrying amount due to the short-term maturity of these instruments. The operating loan and demand loans approximate their carrying amount due to the variable interest rates applied to these loans.

Credit Risk

Accounts receivable includes balances from a large number of customers. The Corporation assesses the credit worthiness of its customers on an ongoing basis as well as monitoring the amount and age of balances outstanding. Accordingly, the Corporation views the credit risks on these amounts as normal for the industry.

Interest Rate Risk

The Corporation manages its exposure to interest rate risks through a combination of fixed and variable rate borrowing facilities that are available if required. As at December 31, 2005, all of its borrowings were at variable rates.

Foreign Currency Risk

The Corporation is exposed to foreign currency fluctuations in relation to the US Operations; however, management believes this exposure is not currently material to its overall operations.

Business Risks

Volatility of Industry Conditions

The demand, pricing and terms for oilfield services in the Corporation's existing or anticipated service areas largely depend upon the level of exploration and development activity for both crude oil and natural gas in the Western Canadian Sedimentary Basin ("WCSB") and the US Rocky Mountain region. Oil and gas industry conditions are influenced by numerous factors over which the Corporation has no control, including: oil and natural gas prices; expectations about future oil and natural gas prices; levels of consumer demand; the cost of exploring for, producing and delivering oil and natural gas; the expected rates of declining current production; the discovery rates of new oil and natural gas reserves; available pipeline and other oil and natural gas transportation capacity; weather conditions; political, regulatory and economic conditions; and the ability of oil and natural gas companies to raise equity capital or debt financing.

The level of activity in the oil and natural gas exploration and production industry in the WCSB and the US Rocky Mountain region is volatile. No assurance can be given that expected trends in oil and natural gas exploration and production activities will continue. Any prolonged substantial reduction in oil and natural gas prices would likely affect oil and natural gas production levels and therefore affect the demand for drilling and well services by oil and natural gas exploration and production entities. A material decline in crude oil or natural gas prices or industry activity could have a material adverse effect on the Corporation's business, financial condition, results of operations and cash flows.

Seasonality

The level of activity in the oilfield services industry within the WCSB is influenced by seasonal weather. During excessively rainy periods, equipment moves may be delayed, thereby adversely affecting equipment utilization rates and revenues. If an unseasonably warm winter prevents sufficient freezing, the Corporation may not be able to access well sites and its operating results and financial condition may therefore be adversely affected. The volatility in the weather can therefore create unpredictability in activity and utilization rates, which may have a material adverse effect on the Corporation's business, financial condition, results of operations and cash flows.

Reliance on Personnel

The success of the Corporation is dependent upon its management, technical and field personnel. Any loss of the services of such individuals could have a material adverse effect on the business and operations of the Corporation. The ability of the Corporation to expand its services is dependent upon its ability to attract additional qualified employees. The ability to secure the services of additional personnel is constrained in times of strong industry activity.

Startup of Fracturing Division Operations

The Corporation has recently formed a Fracturing division, initially for the purpose of providing fracturing services to customers in the Rocky Mountain region. The Corporation has not previously carried on a fracturing business and while management of the Corporation believes that it will be able to hire and retain sufficient numbers of experienced operating personnel to allow the Corporation to carry on its planned fracturing business there can be no assurance that the Corporation will not experience operational and financial problems inherent in the start up of any business including a lack of qualified personnel, delays in fracturing equipment delivery, proppant supply constraints and competition from established fracturing operators with greater expertise, financial resources and existing customer relationships.

Dependence on Suppliers

The ability of the Corporation to compete and grow will be dependent on the Corporation having access, at a reasonable cost and in a timely manner, to equipment, parts and components. Failure of suppliers to deliver such equipment, parts and components at a reasonable cost and in a timely manner would be detrimental to the Corporation's ability to maintain existing customers and expand its customer list. No assurances can be given that the Corporation will be successful in maintaining its required supply of equipment, parts and components.

The Corporation's ability to provide services to its customers is also dependent upon the availability at reasonable prices of raw materials which the Corporation purchases from various suppliers, most of whom are located in Canada or the United States. Alternate suppliers exist for all raw materials. The source and supply of materials has been consistent in the past; however in periods of high industry activity, as has been seen in recent years, periodic shortages of certain materials has been experienced and costs may be affected. Management maintains relationships with a number of suppliers in an attempt to mitigate this risk. However, if the current suppliers are unable to provide the necessary raw materials, or otherwise fail to deliver products in the quantities required, any resulting delays in the provision of services to the Corporation's customers could have a material adverse effect on the Corporation's results of operations and the Corporation's financial condition.

Outlook

2005 was a very successful year with the Corporation more than doubling revenue and increasing net income by over 300%. This financial growth reflects strong industry fundamentals coupled with continued growth of the Canadian Operations of the Completion Services Segment, the establishment and rapid growth of the US Operations and the integration and expansion of the Drilling Services Segment. Management expects 2006 to be another year of growth as reflected by the recent expansion of the 2006 capital budget to $70.1 million. The proceeds from the initial public offering are expected to largely fund the remaining expenditures under the 2006 capital budget providing a solid balance sheet necessary to appropriately grow the Corporation.

Management expects strong industry activity levels to continue to support the growth of the Corporation as industry forecasts anticipate year-over-year growth in the WCSB and the US Rocky Mountain region. However, the warm winter experienced in most of North America has led to increasing natural gas inventory levels resulting in a decline in natural gas prices. Management believes that the current natural gas prices are sufficiently high to maintain the solid activity levels currently being experienced in the industry. Nevertheless, management understands that oil and gas prices can be volatile and that oilfield services is a cyclical industry and will continue to monitor oil and gas prices and industry activity levels to ensure its plans appropriately reflect industry fundamentals.

Non-GAAP Disclosure

EBITDA does not have a standardized meaning prescribed by GAAP and therefore may not be comparable to similar measures presented by other issuers. The following is a reconciliation of EBITDA, as used in this MD&A, to net income, being the most directly comparable measure calculated in accordance with GAAP.

	Three Months ended December 31,		Year ended December 31,		
($ millions, except per share amounts)	**2005**	**2004**	**2005**	**2004**	**2003**
	(unaudited)	(unaudited)			
EBITDA	**$ 10.8**	$ 2.8	**$ 23.8**	$ 8.7	$ 7.0
Deduct:					
Depreciation and amortization	**2.0**	1.3	**5.7**	3.6	1.9
Interest expense	**0.4**	0.3	**1.4**	0.8	0.5
Income taxes (1)	**2.7**	0.7	**5.8**	1.9	1.8
Net income (GAAP financial measure)	**5.7**	0.5	**10.9**	2.4	2.8

(1) Income taxes consist of current income taxes and future income taxes.

Forward-Looking Statements

Certain statements in this MD&A may constitute "forward-looking information" which involves known and unknown risks, uncertainties and other factors which may cause the actual results, performance or achievements of the Corporation, or industry results, to be materially different from any future results, performance or achievements expressed or implied by such forward-looking information. When used in this MD&A, such information uses such words as "may", "would", "could", "will", "intend", "expect", "believe", "plan", "anticipate", "estimate" and other similar terminology. This information reflects the Corporation's current expectations regarding future events and operating performance and speaks only as of the date of this MD&A. Forward-looking information involves significant risks and uncertainties, should not be read as a guarantee of future performance or results, and will not necessarily be an accurate indication of whether or not such results will be achieved. A number of factors could cause actual results to differ materially from the results discussed in the forward-looking information, including, but not limited to, the factors discussed below. Although the forward-looking information contained in this MD&A is based upon what management of the Corporation believes are reasonable assumptions, the Corporation cannot assure investors that actual results will be consistent with this forward-looking information. This forward-looking information is provided as of the date of this MD&A, and, subject to applicable securities laws, the Corporation assumes no obligation to update or revise such information to reflect new events or circumstances.

In particular, this MD&A contains forward-looking information pertaining to the following: capital expenditure programs; financing of the Corporation's activities including capital expenditures, supply and demand for oilfield services and industry activity levels, commodity prices, dependence on suppliers, dependence on personnel, collection of accounts receivable, expectations regarding market prices and costs, expansion of services in Canada and the United States and competitive conditions.

The Corporation's actual results could differ materially from those anticipated in the forward- looking information as a result of the following factors: general economic conditions in Canada and the United States; demand for oilfield services during drilling and completion of oil and natural gas wells; volatility in market prices for oil and natural gas and the effect of this volatility on the demand for oilfield services generally; competition; liabilities and risks, including environmental liabilities and risks, inherent in oil and natural gas operations; sourcing, pricing and availability of raw materials, consumables, component parts, equipment, suppliers, facilities, and skilled management, technical and field personnel; ability to integrate technological advances and match advances of competition; availability of capital; uncertainties in weather and temperature affecting the duration of the oilfield service periods and the activities that can be completed; changes in legislation and the regulatory environment, including uncertainties with respect to implementing the Kyoto Protocol; and the other factors considered under "Risk Factors" in the Corporation's Prospectus dated January 19, 2006 which is available under the Corporation's profile at www.sedar.com.